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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

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## FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/07 AND ENDING 12/31/07  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Hornor Townsend & Kent, Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

600 Dresher Road

(No and Street)

Horsham

(City)

Pennsylvania

(State)

19044

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Stacey N. Polakowski(215) 956 - 8208

(Area Code - Telephone No.)

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## B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report \*

PricewaterhouseCoopers LLP

(Name -- if individual, state last, first, middle name)

FEB 29 2008

Washington, DC

111

Two Commerce Square Suite 1700

(Address)

Philadelphia

(City)

Pennsylvania

(State)

19103

(Zip Code)

## CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions

PROCESSED

MAR 18 2008

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FINANCIAL

FOR OFFICIAL USE ONLY

\* Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for exemption. See section 240.17a-5(e)(2).

SEC 1410 (06-02)

Potential persons who are to respond to the collection of information  
contained in this form are not required to respond unless the form displays  
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## OATH OR AFFIRMATION

I, Norman R. Lazarus, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Hornor Townsend & Kent, Inc., as of December 31, 2007, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

COMMONWEALTH OF PENNSYLVANIA

Notarial Seal  
Marianne C. Bechtel, Notary Public  
Horsham Twp., Montgomery County  
My Commission Expires Dec. 26, 2009

Member, Pennsylvania Association of Notaries

Marianne C. Bechtel  
Notary Public

[Signature]  
Signature

CEO/President

Title

This report \*\* contains (check all applicable boxes)

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report
- ☒ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\* For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

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111

# **Hornor, Townsend & Kent, Inc. and Subsidiaries**

**Consolidated Statement of Financial Condition  
December 31, 2007**

# Hornor, Townsend & Kent, Inc. and Subsidiaries

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December 31, 2007

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PricewaterhouseCoopers LLP  
Two Commerce Square, Suite 1700  
2001 Market Street  
Philadelphia, PA 19103-7042  
Telephone (267) 330 3000  
Facsimile (267) 330 3300

**Report of Independent Auditors**

To the Board of Directors and Stockholder of  
Hornor, Townsend & Kent, Inc. and Subsidiaries

In our opinion, the accompanying consolidated statement of financial condition presents fairly, in all material respects, the financial position of Hornor, Townsend & Kent, Inc. and Subsidiaries (the "Company") at December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
February 14, 2008

**Hornor, Townsend & Kent, Inc. and Subsidiaries**  
**Consolidated Statement of Financial Condition**  
**December 31, 2007**

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**Assets**

Cash and cash equivalents	\$ 7,128,672
Restricted cash and deposits with clearing organization	75,029
Receivables from brokers/dealers and clearing organizations	1,212,665
Commissions receivable	1,513,701
Equipment and capitalized software, at cost (net of accumulated depreciation of \$1,087,781)	73,581
Prepaid expenses and other assets	844,671
Total assets	<u>\$ 10,848,319</u>

**Liabilities and Stockholder's Equity**

**Liabilities**

Commissions payable	\$ 1,651,854
Accounts payable and accrued expenses	1,564,996
Deferred tax liability	29,759
Securities sold not yet purchased, at market value	5,055
Total liabilities	<u>3,251,664</u>

**Stockholder's Equity**

Common stock, \$1.00 par value; 1,000 shares authorized, issued and outstanding	1,000
Additional paid-in capital	17,658,264
Accumulated deficit	<u>(10,062,609)</u>
Total stockholder's equity	<u>7,596,655</u>
Total liabilities and stockholder's equity	<u>\$ 10,848,319</u>

The accompanying notes are an integral part of this consolidated financial statement.

**Hornor, Townsend & Kent, Inc. and Subsidiaries**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2007**

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**1. Organization and Basis of Presentation**

Hornor, Townsend & Kent, Inc. (the "Company") is an introducing broker-dealer registered with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority. The Company is a wholly owned subsidiary of The Penn Mutual Life Insurance Company ("Penn Mutual"). The Company has 3 wholly owned subsidiaries, HTK of Delaware, Inc., HTK Insurance Agency, Inc., and HTK Insurance Agency of Ohio. These companies perform duties in relation to joint venture partnerships and insurance related selling requirements. All intercompany balances and transactions are eliminated in consolidation. The Company selects, trains, and supervises personnel of Penn Mutual and independent registered representatives in connection with the sale of registered products.

The accompanying financial statement has been prepared in conformity with accounting principles generally accepted in the United States.

**2. Summary of Significant Accounting Policies**

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, money market instruments and other debt securities purchased with a maturity of 90 days or less.

**Restricted Cash and Deposits with Clearing Organizations**

Restricted Cash represents cash in a bank account established for the benefit of customers in accordance with section (k)(2)(i) of the Securities Exchange Act Rule 15c3-3. These funds were set aside to cover potential obligations to customers who may have been overcharged commissions due to possible breakpoint discounts that may not have been delivered.

Restricted Cash also includes \$50,000 in deposits made to Pershing LLC, HTK's Clearing Organization.

**Receivable from Broker/Dealers and Clearing Organization**

Receivable from broker/dealers and clearing organization includes a receivable from Pershing, LLC in the amount of \$1,212,665 at December 31, 2007. The Company clears certain of its customer transactions through Pershing, LLC on a fully disclosed basis. The amount receivable from the clearing broker relates to commissions and other fees earned for the aforementioned transactions.

**Equipment and Capitalized Software**

Equipment is recorded on an historical cost basis and is depreciated on a straight-line basis over the estimated useful lives of the assets. A straight line method of depreciation is used, generally with a three year useful life on computer software and equipment.

**Securities Transactions**

Securities transactions and related commissions are recorded on a trade-date basis.

**Annuities Sales**

Annuities transactions and related commissions are recorded upon acceptance by the insurance company.

**Hornor, Townsend & Kent, Inc. and Subsidiaries**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2007**

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**Investment Advisory Income**

Investment Advisory Income is received monthly, quarterly and semi-annually and is recognized as earned per the terms of the contract(s).

**Asset Management Income**

Asset Management Income is earned and recorded as services are provided.

**Federal Income Taxes**

The Company files a consolidated federal income tax return with Penn Mutual. Federal income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. The federal income tax provision or benefit is limited to the extent the Company's results of operations increase or decrease the consolidated tax liabilities of Penn Mutual pursuant to a tax sharing agreement with Penn Mutual. In the absence of this agreement the Company potentially may not be able to recognize reflected benefits in whole or in part. Deferred income tax assets and liabilities are established to reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred tax assets or liabilities are measured by using the enacted tax rates expected to apply to taxable income in the period in which the deferred tax liabilities or assets are expected to be settled or realized.

The Company had a payable to Penn Mutual of \$155,007 at December 31, 2007 relating to overpayments received from Penn Mutual. This amount is included in accounts payable and accrued expenses on the consolidated statement of financial condition. FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48") was adopted by the Company on January 1, 2007.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the disclosure of contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates.

**Significant Revenue Relationships**

HTK considers significant revenue relationships to be relationships who account for 10% or more of total revenue. In 2007, one non-affiliated company accounted for approximately 12% of total revenue. No other companies accounted for more than 10% of total revenue.

**3. Related Party Transactions**

HTK supports Penn Mutual's professional agents and financial advisors and sells Penn Mutual Variable Life and Variable Annuity Products.

Under the terms of an expense allocation agreement, the Company reimbursed Penn Mutual for services provided on behalf of the Company, including direct and allocated expenses. As of December 31, 2007 a payable of \$82,715 was recorded. Also, under terms of an expense allocation agreement, Penn Mutual reimbursed the Company for services provided on behalf of Penn Mutual, including direct and indirect expenses. As of December 31, 2007, a receivable from Penn Mutual was recorded for \$35,573.



**Hornor, Townsend & Kent, Inc. and Subsidiaries**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2007**

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As a marketing allowance, the Company pays an 85% ratio of commission expense on commission revenue. After commissions are paid to registered representatives the residual value is paid to Penn Mutual.

Other expenses paid to Penn Mutual in 2007 include rent, payroll, and related benefits.

**4. Credit Risk**

In the event a customer of the Company is unable to fulfill their contracted obligations related to a security trade, the Company's clearing agent may be required to purchase or sell financial instruments at prevailing market prices in order to satisfy its customer-related obligations. Any loss incurred by the clearing agent on behalf of a customer of the Company is charged to the Company.

The Company clears approximately 40% of their securities transactions through a clearing broker. Accordingly, a substantial portion of the Company's credit exposures are concentrated with their clearing broker. In accordance with industry practice, the clearing agent records customer transactions on a settlement-date basis, which is generally three business days after trade date. The clearing agent is therefore exposed to risk of loss on these transactions in the event of a customer's inability to meet the terms of their contracts, in which case the clearing agent may have to purchase or sell the underlying financial instruments at prevailing market prices. Any loss incurred by the clearing agent, on behalf of a customer of the Company, is charged to the Company.

The Company seeks to control the risk of loss by requiring customers to maintain margin collateral in compliance with various guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions when necessary. At December 31, 2007, total margin debt was \$4,121,175. Collateral held in connection with these transactions was \$32,958,158 at December 31, 2007.

**5. Income Taxes**

The Company had a deferred tax liability of \$29,759 at December 31, 2007, and no deferred tax asset. Deferred tax liabilities result primarily from accrued expenses which are not currently deductible for income tax purposes and capitalized software costs which are deductible when paid for income tax purposes. The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in income Taxes* on January 1, 2007.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

<b>Balance at January 1, 2007</b>	<b>\$</b>	-
Additions based on tax provisions related to the current year		-
Additions for tax positions in prior years		-
Reductions for tax positions in prior years		-
Settlements/statue expiration		-
<b>Balance at December 31, 2007</b>	<b>\$</b>	<b>-</b>

The Company recognizes penalties and/or interest as a component of tax expense. During the year ended December 31, 2007 the Company did not recognize any interest. The Company had no interest accrued at December 31, 2007. No penalties were recognized or accrued. Therefore, the total unrecognized tax positions reserve as of December 31, 2007 is \$0.

**Hornor, Townsend & Kent, Inc. and Subsidiaries**  
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The Internal Revenue Services ("IRS") has completed their examination of the Company's income tax returns through the year 2001. Income tax returns for the tax years 2002 through 2004 are currently being examined by the IRS. Management has not made a provision as no adjustments are expected.

The Company does not anticipate that total unrecognized tax benefits will significantly change in the next twelve months due to the settlement of audits or statute expirations.

**6. Employee Benefit Plan**

The employees of the Company are covered under Penn Mutual's defined benefit retirement plan. Under this arrangement, the Company owed \$0 to Penn Mutual as of December 31, 2007. Payments are made regularly throughout the year.

**7. Commitments and Contingencies**

The Company leases its office from Penn Mutual under a noncancelable operating lease expiring March 31, 2008. The Company expects to renew the lease immediately upon expiration.

At December 31, 2007, aggregate minimum rental commitments under all noncancelable leases through March 31, 2008 were \$24,660.

In the normal course of its business, the Company is a defendant in various claims and legal actions arising principally from the activities of registered representatives of the Company. These actions have been considered by the Company in determining reserves necessary to cover probable liabilities. As of December 31, 2007, the Company had accrued liabilities of \$69,100 which represents its best estimate for probable losses in connection with these various legal actions. In the opinion of management, the ultimate disposition of pending litigation will not have a material adverse effect on the Company's financial condition, liquidity, or results of operations.

The Company has a remaining liability for potential mutual fund breakpoint refunds to customers in the amount of \$5,000 as of December 31, 2007. This amount represents the Company's best estimate of probable refunds in connection with possible overcharges on large mutual fund purchases by its customers. In the opinion of management, the ultimate impact of these refunds will not have a material adverse effect on the Company's financial condition, liquidity, or results of operations.

**8. Concentrations**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of bank deposits and money market funds. The Company maintains cash balances with financial institutions that exceed the federally insured limit of \$100,000 per institution. The Company also maintains money market funds that are not federally insured.

**Hornor, Townsend & Kent, Inc. and Subsidiaries**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2007**

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**9. Equipment and Capitalized Software**

Equipment	\$ 649,465
Capitalized software	<u>511,897</u>
	1,161,362
Less: Accumulated depreciation and amortization	<u>(1,087,781)</u>
	<u>\$ 73,581</u>

**10. Net Capital Requirements**

As a registered broker-dealer, the Company is subject to the Uniform Net Capital Rule under Rule 15c3-1 of Securities Exchange Act of 1934. The Company computes its net capital requirement using the basic method of computation. Under this method, the Company's requirement may not be less than 6 3/4% of aggregate indebtedness or \$250,000 whichever is greater. The regulations also require that the ratio of aggregate indebtedness to net capital not to exceed 15 to 1. At December 31, 2007, the Company had net capital of \$6,293,253 which was \$6,043,253 in excess of its requirement of \$250,000. The Company's net capital ratio was .52 to 1.

**END**